Surname		Other Names	
Centre Number		Candidate Number	
Candidate Signature			

For Examiner's Use

General Certificate of Education
January 2008
Advanced Level Examination

ASSESSMENT and QUALIFICATIONS ALLIANCE

APPLIED BUSINESS BS15
Unit 15 Financial Accounting for Managers

Thursday 24 January 2008 1.30 pm to 3.00 pm

For this paper you must have:
- a calculator.

Time allowed: 1 hour 30 minutes

Instructions
- Use blue or black ink or ball-point pen.
- Fill in the boxes at the top of this page.
- Answer **all** questions.
- Answer the questions in the spaces provided.
- Do all rough work in this book. Cross through any work you do not want to be marked.
- If you need additional space, you should continue your answers at the end of this book, indicating clearly which question you are answering.

Information
- The maximum mark for this paper is 80.
- The marks for questions are shown in brackets.
- Questions 2(c), 3(b) and 3(c) should be answered in continuous prose. In these questions you will be marked on your ability to use good English, to organise information clearly and to use specialist vocabulary where appropriate.

For Examiner's Use			
Question	Mark	Question	Mark
1		3	
2			
Total (Column 1) →			
Total (Column 2) →			
TOTAL			
Examiner's Initials			

Answer **all** questions in the spaces provided.

1 Read **Item A** and then answer the questions that follow.

Item A

Improving record keeping systems

Demand for plumbers has risen during the recent building boom in the UK and many businesses associated with plumbing have shared in this boom.

Plumbing and Parts Ltd supplies the full range of materials, parts and equipment needed by plumbers. The business prides itself on the high standard of service it provides for its customers. It has been successful despite competition from other similar businesses and, increasingly, from online retailers.

Plumbing and Parts Ltd has been expanding rapidly and needs to maintain high levels of often expensive stock in order to meet the demand from plumbers and to ensure that these customers will not need to buy from its competitors.

Plumbing and Parts Ltd buys all of its stock using trade credit and also allows trade credit to plumbers. It receives prompt payment (cash) discounts from suppliers and allows prompt payment discounts to plumbers.

Recently, *Plumbing and Parts Ltd* has been ordering increasing amounts of stock from several different suppliers. When *Plumbing and Parts Ltd* orders stock from a supplier, it completes a purchase order. The supplier will then send the stock to *Plumbing and Parts Ltd* along with a delivery note.

Although *Plumbing and Parts Ltd* has a good record with regard to completing financial documents, it has not been completing a goods received note when stock is delivered. The business is always looking to improve its record keeping systems.

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(a) Using **Item A**, explain **one** benefit to *Plumbing and Parts Ltd* of allowing a prompt payment discount to customers.

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(3 marks)

(b) Using **Item A**, explain **one** benefit to *Plumbing and Parts Ltd* of introducing goods received notes.

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(3 marks)

Question 1 continues on the next page

LEAVE MARGIN BLANK

(c) The flow chart below shows how a recent transaction at *Plumbing and Parts Ltd* would have been recorded in the business's accounting system.

Transaction	Book of Original Entry	Ledger Account involved	Where the Account appears in Final Accounts
Sale of stock on credit	Sales Book (Journal/Day Book)	Sales	Trading Account
		Debtors	Balance Sheet – current asset

Complete the flow chart for the situation set out below by filling in the shaded boxes with the correct information.

Cheque received in payment from a customer		Bank	
			Balance Sheet – current asset

(3 marks)

LEAVE MARGIN BLANK

(d) Using **Item A**, analyse why sound financial record keeping is important to *Plumbing and Parts Ltd*.

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(9 marks)

18

Turn over for the next question

2 Read **Item B** and then answer the questions that follow.

Item B

Completing final accounts

The directors of *Plumbing and Parts Ltd* are considering expanding the business and need accurate final accounts to help with the decision-making process.

The Financial Director of *Plumbing and Parts Ltd* has prepared a trial balance to check the arithmetic accuracy of the business's accounts.

Plumbing and Parts Ltd

Trial Balance (extract) at 31 December 2007

	£000s
Stock at 1 January 2007	1 900
Purchases	10 276
Electricity	25
Salaries	410

Before the final accounts can be prepared, the following adjustments need to be taken into account.

- Stock at 31 December 2007 was valued at £1 954 000.
- An amount for electricity of £5000 was outstanding at 31 December 2007.
- The amount for salaries in the trial balance included £10 000 for the following year.

After the final accounts had been completed, it was discovered that the purchase of warehouse equipment of £1600 had been incorrectly recorded in the warehouse equipment account as £7000. It was also discovered that finance costs had been understated by a total of £5400.

Plumbing and Parts Ltd will need to attract external funding to finance any expansion. One of the directors has suggested that by changing the accounting policies, the business could report higher profits and asset values, making *Plumbing and Parts Ltd* more attractive to potential investors. This director has suggested:

- increasing the valuation of closing stock
- reducing the provision for depreciation of fixed assets
- valuing premises at current market prices.

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(a) Using **Item B**, complete the shaded boxes in the Trading and Profit and Loss Account below.

Plumbing and Parts Ltd

Trading and Profit and Loss Account
for the year ended 31 December 2007

	£000s	**£000s**
Turnover		14 158
Less cost of sales		
Gross profit		
Less expenses:		
Electricity		
Salaries		
Insurance	14	
Distribution expenses	700	
Other administration expenses	1 100	
Finance costs	55	
Provision for depreciation	234	
Net profit		

Use the following spaces to show your **calculations** for:

cost of sales

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electricity

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salaries.

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(10 marks)

Turn over ▶

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(b) *Plumbing and Parts Ltd* has made errors in the final accounts in recording warehouse equipment and finance costs (**Item B**, lines 11 to 14).

Analyse the possible impact of these errors on the business's financial decision making.

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(8 marks)

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(c) To what extent do you agree with the suggestion made by one of the directors that the accounting policies of *Plumbing and Parts Ltd* should be altered (**Item B**, lines 16 to 22)? You should use relevant accounting concepts to justify your answer.

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(12 marks)

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Turn over ▶

3 Read **Item C** and then answer the questions that follow.

Item C is not reproduced here due to third-party copyright constraints.

LEAVE MARGIN BLANK

(a) Identify and explain **two** limitations of using only accounting ratios to assess the performance of *B&Q*.

Limitation 1 .....

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(3 marks)

Limitation 2 .....

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(3 marks)

Question 3 continues on the next page

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(b) Using **Item C**, evaluate the significance to *B&Q* of the accounting ratios shown in **Table 1**.

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(12 marks)

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(c) Using all the information available to you, propose suitable actions that could be taken to improve the solvency, profitability and efficiency of *B&Q*. You should justify your answer.

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(14 marks)

END OF QUESTIONS

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